

STATES OF JERSEY



DRAFT PUBLIC EMPLOYEES (CONTRIBUTORY RETIREMENT SCHEME) (NEW MEMBERS) (AMENDMENT No. 10)(JERSEY) REGULATIONS 200

**Lodged au Greffe on 6th September 2005
by the Policy and Resources Committee**

STATES GREFFE



Jersey

DRAFT PUBLIC EMPLOYEES (CONTRIBUTORY RETIREMENT SCHEME) (NEW MEMBERS) (AMENDMENT No. 10)(JERSEY) REGULATIONS 200

REPORT

Public Employees Contributory Retirement Scheme

Amendments to address the 2001 valuation deficiency

1. The Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989, made in accordance with the Public Employees (Retirement) (Jersey) Law 1967, require an actuarial valuation to be undertaken at least every 5 years. It is the policy of the PECRS Committee of Management (COM) to have such valuations once every 3 years in order to keep the finances of the Scheme under more frequent scrutiny.

The most recent valuation was signed off by the Scheme Actuary on 15th December 2003 and laid before the States on 27th January 2004. It showed the Scheme as having a deficiency of £78.1 million as at 31st December 2001. This valuation took account of the framework agreed in 2003 between the Policy and Resources Committee (PRC) as Principal Employer under the Scheme and the COM, to be endorsed by the States, dealing with the pre-1987 debt as described in the valuation concerned.

2. Subsequent to this, in July 2004 the PRC laid before the States details of the agreement it had reached with the COM to address the £78.1 million deficiency, following the successful completion of negotiations with the Public Employees Pension Scheme Joint Negotiating Group (JNG) which represents the interests of all members of the scheme.
3. Passing the following Regulations will give legal effect to the agreement reached between the PRC and the COM for addressing the deficiency of £78.1 million brought out by the valuation (as referred to above) –
 - the Public Employees (Contributory Retirement Scheme) (New Members) (Amendment No. 10) (Jersey) Regulations 200-
4. A further actuarial valuation of the Scheme, as at 31st December 2004 is in progress. The outcome of the valuation is expected to be advised to the States by mid-2006.
5. The Regulations submitted by the PRC as Principal Employer of the Scheme have the support of the Finance and Economics Committee. They also have the agreement of the COM and JNG.

Amendments to address the valuation deficiency

6. As noted above, even after taking credit for the framework agreed for dealing with the pre-1987 debt, the actuarial valuation at 31st December 2001 disclosed a deficiency of £78.1 million. The Actuary's valuation gave further background to the reasons for the deficiency, which included a disappointing performance in stock markets, and revised assumptions to take account of increased life expectancy. This section covers the content of the Public Employees (Contributory Retirement Scheme) (New Members) (Amendment No. 10) (Jersey) Regulations 200 being promoted to address this deficiency.
7. Whilst negotiations with the JNG were in progress the States decided on 8th June 2004 to restore the obligatory PECRS entry age to 20 from the previous obligatory entry age of 30. The Actuary has advised that this amendment to the eligibility criteria effectively reduced the deficiency of £78.1 million by £8 million to £70.1 million.

8. Before presenting the details of the amendments being presented to deal with the remaining deficiency, it is appropriate to say something about the rationale for the amendments from PRC's perspective.

9. It is not believed appropriate in the States' current financial circumstances that there should be any increase to the States' contribution rate above the 15.6% level that is set to take effect following the passing of the Regulations presented for dealing with the pre-1987 debt. Furthermore, it is not believed appropriate that there should be any adverse impact on the benefits of previously retired employees, or the benefits and contributions of current employees. Both these aims are achieved.

Instead, the method used within the amendments being presented is one involving reductions in benefits for future members who are, having regard to current mortality estimates, most likely to live longer. Such an approach has been used by employers in the U.K. for addressing increased pension costs.

10. In the U.K., another approach used by employers in the private sector (although not in the public sector) has been to introduce a money purchase scheme for future employees. Whilst this may be appropriate for some employers, it is unattractive for the States given that it would, at least in the short term, require significant increases in the contributions paid by the States to PECRS to honour existing benefit entitlements. Such a change would also be expected to cause difficulties over recruiting key personnel from the U.K., where final salary schemes for public service employees remain the norm.

The amendments retain the existing "final salary" benefit structure but with a benefit reduction for future employees who retire before age 65.

This should encourage greater participation in the States workforce at older ages, where currently the pension scheme design provides little financial incentive for many employees to work on beyond age 60. It is also consistent with the U.K. Government's announced policy (not yet implemented) of adjusting pension age from 60 to 65 for future recruits to the U.K. public service.

11. The detail of the agreement negotiated with the JNG and approved by the COM, and now reflected in the Public Employees (Contributory Retirement Scheme) (New Members) (Amendment No. 10) (Jersey) Regulations 200- hereby presented, is as follows. The agreement will have no impact on the benefits or contributions of the Scheme's present active members, pensioners or deferred pensioners. However, for future employees who enter the Scheme on or after 1st January 2006 the benefit structure will be modified as follows –

(a) Pension Ages will be introduced which are equal to the current Normal Retiring Age, i.e. –

- 55 – Category A members*
- 60 – Category B members**
- 65 – Non-uniformed members;

* Category A member means a front line officer of the uniformed services such as the States of Jersey Police Force, the States of Jersey Fire Service, the States of Jersey Prison Service, the States of Jersey Airport Fire Service and the States of Jersey Ambulance Service.

** Category B member means a Chief Officer of the States of Jersey Police Force, the Prisor Governor, a Chief Officer of the States of Jersey Prison Service, the Chief Fire Officer, the Chief and Deputy Chief of the Airport Fire Service or the Chief or Assistant Chief Ambulance Officer or an Air Traffic Control Officer.

(b) The earliest age at which future members will have the option to retire will be the same as for present members (subject to meeting the service requirements specified in the Regulations), i.e. –

- 50 – Category A members
- 55 – Category B members
- 60 – Non-uniformed members.

(c) On retirement from active service prior to Pension Age, reduced benefits will be payable, with a reduction factor set at 2.4% for each year that retirement precedes Pension Age (pro rata for part year effects).

As an example, a future Category A member retiring at the age of 50 will receive 88% of accrued benefits, as will a future Category B member retiring at 55, and a future non-uniformed member

retiring at age 60. This differs from the position of present members retiring in these circumstances who receive 100% of their accrued benefits.

- (d) The Regulations provide that the reduction factors applied on early retirement of future entrants, whilst initially set at 2.4% p.a. as noted above, will be capable of being adjusted with changing circumstances.

It is envisaged that in practice the reduction factors will be routinely reviewed under each triennial actuarial valuation. Any proposals for varying the reduction factors could then be taken into account in the negotiations for dealing with a surplus or deficiency revealed by the valuation.

- (e) The position for those future members who may become entitled to a “deferred pension” at Pension Age will include an option for a pension to be payable for up to 5 years prior to Pension Age but this will involve the use of reduction factors larger than the 2.4% p.a. noted above. The reduction will be set by the Actuary, at a level which fully recovers the increased cost of paying the pension early and for a longer period.

- 12. The Actuary has confirmed that the proposals outlined above have the effect of meeting the remaining deficiency brought out by the valuation as at 31st December 2001.

Note:

The details of the agreement between the Policy and Resources Committee and the Public Employees Contributory Retirement Scheme Committee of Management was presented to the States in an R.C. in July 2004.

Financial/manpower statement

There are no manpower implications for the States arising from these Regulations, and additional financial implications are addressed in the main body of the Report and Regulations.

Explanatory Note

These Regulations amend the Public Employees (Contributory Retirement Scheme) (New Members) (Jersey) Regulations 1989 to provide that if a person who becomes an employee and member after 31st December 2005 receives a pension before normal retirement age (other than as a result of ill health) the pension will be reduced by a relevant percentage that takes into account the length of the period the pension is to be paid before the person's normal retiring age.



Jersey

DRAFT PUBLIC EMPLOYEES (CONTRIBUTORY RETIREMENT SCHEME) (NEW MEMBERS) (AMENDMENT No. 10)(JERSEY) REGULATIONS 200

Arrangement

Regulation

- 1 Interpretation
- 2 Regulation 6 substituted
- 3 Regulation 8 amended
- 4 Regulations 17 substituted
- 5 Regulation 17 amended
- 6 Citation and commencement



Jersey

DRAFT PUBLIC EMPLOYEES (CONTRIBUTORY RETIREMENT SCHEME) (NEW MEMBERS) (AMENDMENT No. 10)(JERSEY) REGULATIONS 200

Made

[date to be inserted]

Coming into force

[date to be inserted]

THE STATES, in pursuance of Article 2 of the Public Employees (Retirement) (Jersey) Law 1967,^[1] have made the following Regulations –

1 Interpretation

In these Regulations “the principal Regulations” means the Public Employees (Contributory Retirement Scheme) (New Members) (Jersey) Regulations 1989.^[2]

2 Regulation 6 substituted

For Regulation 6 of the principal Regulations there shall be substituted the following Regulations –

“6 Pensions payable before normal retiring age to members with 10 years pensionable service

- (1) This Regulation applies to a member who has completed at least 10 years’ pensionable service and who –
 - (a) in the case of a Crown Officer or Magistrate, retires within the 5 years after attaining the age of 60 years; or
 - (b) in any other case, retires not more than 5 years before attaining normal retiring age.
- (2) It also applies to a member who has completed at least 10 years’ pensionable service and who –
 - (a) in the case of a Crown Officer or Magistrate, has his or her appointment as a Crown Officer or Magistrate terminated within 5 years of attaining the age of 60 years; or
 - (b) in any other case, has his or her employment terminated not more than 5 years before attaining normal retiring age.
- (3) A member to whom this Regulation applies shall receive a pension under the scheme calculated in accordance with paragraph (5), paragraph (6) or paragraph (7).
- (4) Except as provided by paragraph (7), the pension shall be payable–
 - (a) from the date of the member’s retirement; or

- (b) where the member ceases to hold office or has his or her employment terminated, from the date the member ceases to hold office or ceases to be employed, as the case may be.
- (5) The pension payable to a member who first became an employee before 1st January 2006 shall be the amount calculated in accordance with Regulation 5.
- (6) Subject to paragraph (7), the pension payable to a member who first became an employee after 31st December 2005 shall be the amount calculated in accordance with Regulation 5 reduced by 2.4% for each year (and so in proportion for any part of a year) by which the member's age at the time of his or her retirement, or termination of office or employment falls short of the age of 65 years in the case of a Crown Officer or Magistrate or, in any other case, normal retiring age.
- (7) A member to whom paragraph (6) applies may, at any time before receiving a pension calculated in accordance with that paragraph, elect to be paid a pension calculated in accordance with Regulation 5 that is payable from the date the member attains the age of 65 years in the case of a Crown Officer or Magistrate or, in any other case, normal retiring age.

6A Pensions payable before normal retiring age to members with 2 but less than 10 years pensionable service

- (1) This Regulation applies to a member –
 - (a) who has not attained the age of 65 years;
 - (b) who retires having attained the age of 60 years after completing at least 2 but less than 10 years' pensionable service; and
 - (c) who is a Crown Officer or Magistrate or, in any other case, a member with a normal retiring age of 65 years.
- (2) This Regulation also applies to a member –
 - (a) who has not attained the age of 65 years;
 - (b) whose appointment or employment is terminated after he or she has attained the age of 60 years after completing at least 2 but less than 10 years' pensionable service; and
 - (c) who is a Crown Officer or Magistrate or, in any other case, a member with a normal retiring age of 65 years.
- (3) A member to whom this Regulation applies shall receive a pension under the scheme calculated in accordance with paragraph (5), paragraph (6) or paragraph (7).
- (4) Except as provided by paragraph (7), the pension shall be payable–
 - (a) from the date of the member's retirement; or
 - (b) where the member ceases to hold office or has his or her employment terminated, from the date the member ceases to hold office or ceases to be employed, as the case may be.
- (5) The pension payable to a member who first became an employee before 1st January 2006 shall be the amount calculated in accordance with Regulation 5.
- (6) Subject to paragraph (7), the pension payable to a member who first became an employee after 31st December 2005 shall be the amount calculated in accordance with Regulation 5 reduced by 2.4% for each year (and so in proportion for any part of a year) by which the member's age at the time of his or her retirement, or termination of office or employment falls short of the age of 65 years.
- (7) A member to whom paragraph (6) applies may, at any time before receiving a pension

calculated in accordance with that paragraph, elect to be paid a pension calculated in accordance with Regulation 5 that is payable from the date the member attains the age of 65 years.”.

3 Regulation 8 amended

For Regulation 8(1) of the principal Regulations there shall be substituted the following paragraphs—

- “(1) This Regulation applies to a member –
- (a) who ceases to be an employee after completing at least 2 years’ qualifying service; and
 - (b) who is not entitled to a pension under Regulation 5, Regulation 6, Regulation 6A or Regulation 7.
- (1A) The member shall be entitled –
- (a) to a deferred pension calculated in accordance with Regulation 5 that is payable—
 - (i) in the case of a member who first became an employee before 1st January 2006, from the date when the member attains the age of 60 years or, if earlier, normal retiring age, or
 - (ii) in any other case, from the date the member attains normal retiring age, which in the case of a Crown Officer or Magistrate shall be taken as the age of 65 years;
 - (b) to a refund of the member’s contributions to the scheme calculated in accordance with paragraph (3) if the member was most recently admitted or readmitted to the scheme under these Regulations before 1st August 2000; or
 - (c) to request a transfer value payable in accordance with Regulation 7 of the General Regulations.
- (1B) If a member who chooses to take a deferred pension in accordance with paragraph (1A) (a)(ii) is –
- (a) a Crown Officer or Magistrate; or
 - (b) a member whose normal retiring age is the age of 65 years,
- the member may, at any time after attaining the age of 60 years choose to be paid a pension calculated in accordance with Regulation 5 reduced by a neutral percentage for each year (and so in proportion for any part of a year) by which the member’s age at the time when payment of the pension starts falls short of the age of 65 years.
- (1C) If a member who chooses to take a deferred pension in accordance with paragraph (1A) (a) is a category A or category B member, the member may at any time within the 5 years before attaining normal retiring age choose to be paid a pension calculated in accordance with Regulation 5 reduced by a neutral percentage for each year (and so in proportion for any part of a year) by which the member’s age at the time when payment of the pension starts falls short of the member’s normal retiring age.
- (1D) In paragraph (1B) and (1C) a ‘neutral percentage’, in respect of a reduced pension paid early to a member, means such percentage, as is calculated by the Actuary at the time payment of the reduced pension starts, as shall ensure that payment of the reduced pension will have the same effect on the funds of the scheme as payment of a pension calculated in accordance with Regulation 5 and not paid early would have had”.

4 Regulations 17 substituted

For Regulation 17 of the principal Regulations there shall be substituted the following Regulation—

“17 Augmentation

- (1) The Committee shall at the request of the employer award an augmentation in respect of an employee or former employee in accordance with this Regulation.
- (2) The Committee shall at the request of the employer award an augmentation in respect of a former employee if the Committee is satisfied that –
 - (a) the request is the result of an agreement between the employer and the employer’s employees; and
 - (b) the agreement applies retrospectively, and applies to some or all of the employer’s former employees.
- (3) An augmentation shall consist of any combination, as determined by the employer, of –
 - (a) a period of notional pensionable service;
 - (b) a period of notional qualifying service; or
 - (c) the non-application of the reduction mentioned in Regulation 6(6), Regulation 6(6), Regulation 8(1B) or Regulation 8(1C), as the case may be.
- (4) If augmentation awarded under this Regulation is to include a period of notional qualifying service the employer must request the augmentation at the time the benefits arising from the augmentation become payable.
- (5) Where augmentation is awarded under this Regulation, the employer must pay to the scheme such additional contributions as the Committee, after receiving the advice of the Actuary, determines is equal to the value of the benefits awarded.
- (6) The additional contributions must be paid in full by the time the benefits arising from the augmentation become payable and may consist of –
 - (a) a single cash payment to the scheme;
 - (b) a series of cash payments to the scheme over a period; or
 - (c) a combination of subparagraphs (a) and (b),as determined by the Committee after receiving the advice of the Actuary.
- (7) An augmentation may not be awarded under this Regulation more than 12 months after the employee was admitted or re-admitted to the scheme.
- (8) The Policy and Resources Committee may, in any particular case, extend the period mentioned in paragraph (7).
- (9) An augmentation may not be awarded under this Regulation in any case where the total benefits that would result would exceed any limits imposed by the Comptroller of Income Tax.
- (10) The Committee shall direct the Actuary at least once in any period of 12 months to certify to the Committee the additional cost to the scheme of the operation of this Regulation, calculating it as the aggregate of the additional contributions required under paragraphs (5) and (6).”.

5 Regulation 17 amended

For Regulation 17(8) of the principal Regulations there shall be substituted the following paragraph–

- “(8) The Minister may, in any particular case, extend the period mentioned in paragraph (7).”.

6 Citation and commencement

- (1) These Regulations may be cited as the Public Employees (Contributory Retirement Scheme) (New Members) (Amendment No. 10) (Jersey) Regulations 2006.
- (2) Subject to paragraph (3), these Regulations shall come into force on 1st January 2006.
- (3) If Article 42(3) of the States of Jersey Law 2005^[3] is not in force on 1st January 2006, Regulation 5 shall come into force on the commencement of that Article.

[1] Chapter 16.650.

[2] Chapter 16.650.60.

[3] L.8/2005.